

Message Text

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ORIGIN EA-13

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DRAFTED BY SA/C:GKAMENS/AA/SA:RHNOOTER

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FM SECSTATE WASHDC

TO AMEMBASSY PHNOM PENH PRIORITY

C O N F I D E N T I A L STATE 021545

LIMDIS

E.O.11652:GDS

TAGS: EAID, EFIN, CB

SUBJECT: IMF PRESENCE IN CAMBODIA

1. AT REQUEST OF THE FUND, NOOTER AND KAMENS MET ON JANUARY 29 WITH WOODLEY, PALMER AND CHABRIER IN OFFICE OF U.S. EXECUTIVE DIRECTOR TO IMF, WILLIAM DALE. PURPOSE OF MEETING WAS TO DISCUSS PROSPECTS FOR CONTINUED IMF PARTICIPATION AND PRESENCE IN CAMBODIA. WOODLEY INTRODUCED SUBJECT BY STATING THAT IN VIEW OF DETERIORATING ECONOMIC SITUATION, DIMINISHING GKR ABILITY TO CONTROL SIZE OF ITS BUDGET, AND, PARTICULARLY, RECENT CREATION OF JOINT GKR/US ECONOMIC COMMITTEE, IMF MANAGEMENT WAS SERIOUSLY CONSIDERING WHETHER FUND COULD CONTINUE TO PLAY USEFUL ROLE IN CAMBODIA.

2. REGARDING CREATION OF JOINT COMMITTEE, WOODLEY SAID THAT, WHILE IT MIGHT PROVE TO BE AN EFFECTIVE MECHANISM, CONFIDENTIAL

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THERE SEEMED TO BE NO REAL ROLE FOR FUND'S RESREP TO PLAY

IN IT, AND THAT SOK CHHONG WOULD SERVE ONLY AS AN ADVISOR TO THIS COMMITTEE. HE SAID THAT IMPLEMENTATION OF THIS COMMITTEE WOULD REDUCE NEED FOR IMF PRESENCE AND SUGGESTED THAT IN VIEW OF THIS AND OTHER PROBLEMS FUND WAS FACING IN CAMBODIA, IT MIGHT NOT BE USEFUL FOR EVERS TO RETURN TO PHNOM PENH (EVERS IS NOW ON VACATION IN EUROPE).

3. OTHER PROBLEMS MENTIONED BY WOODLEY AND PALMER DURING DISCUSSION INCLUDED EVERS' INABILITY TO GET MEANINGFUL ESTIMATES OF AID FUNDING INTENTIONS FOR THE BALANCE OF THIS FISCAL YEAR, MANNER IN WHICH U.S. EMBASSY AND HIGH POLITICAL COUNCIL AGREED LAST DECEMBER TO SHARP CHANGE IN EXCHANGE RATE WITHOUT PRIOR CONSULTATION WITH IMF OR SOK CHHONG, AND FACT THAT ORIGINAL FUND GOAL IN CAMBODIA, I.E., TO IMPLEMENT A STABILIZATION PROGRAM, WAS INCREASINGLY IRRELEVANT IN FUND'S VIEW DUE TO LACK OF STABILIZATION AND MINIMAL QUOTE PROGRAM UNQUOTE IN THIS AREA.

4. NOOTER RESPONDED TO IMF CONCERNS BY SAYING THAT WE HAVE IN OUR WRITTEN AND VERBAL COMMUNICATIONS WITH AID STAFF IN CAMBODIA ALWAYS URGED EMBASSY TO MAKE EVERY POSSIBLE EFFORT TO MINIMIZE CONFRONTATIONS WITH IMF, AND IT WAS OUR BELIEF THAT OUR PEOPLE HAD DONE SO. REAL PROBLEM IN RECENT PAST WAS THAT FUND RESREP DID NOT FAVOR DEVALUATION, WHICH WAS ESSENTIAL TO CONSERVE AVAILABLE RESOURCES. FURTHERMORE, IT WAS OUR IMPRESSION THAT RESREP'S POSITION WAS NOT ONLY DIFFERENT FROM EMBASSY'S, BUT ALSO FROM FUND S WASHINGTON STAFF.

5. WOODLEY DID NOT TAKE EXCEPTION TO THESE COMMENTS, BUT STILL QUESTIONED WHETHER THERE WAS A ROLE FOR IMF RESREP IN CAMBODIA AT THIS TIME. WE AGREED JAPANESE MAY RECONSIDER ESF CONTRIBUTION IF IMF WITHDREW COMPLETELY, ALTHOUGH FUND EXPRESSED NO INTENTION OF WITHDRAWING ESF MANAGER.

6. WOODLEY SAID IMF WOULD REVIEW THE SITUATION AND LET US KNOW THE OUTCOME. HE SPECULATED THAT ONE ALTERNATIVE WOULD BE TO WITHDRAW EVERS AND THEN HAVE CHABRIER MAKE PERIODIC VISITS TO CAMBODIA. THIS WOULD PRESERVE IMF CONFIDENTIAL

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ROLE WHILE DISENGAGING EVERS. WE SAID THAT THIS APPEARED TO BE PREFERABLE TO WITHDRAWING ALTOGETHER, ALTHOUGH WE WOULD LIKE TO SEE THE RESREP ROLE CONTINUED SO LONG AS HE ADVOCATED TECHNICALLY SUPPORTABLE ECONOMIC POLICIES.

7. IN TELEPHONE CONVERSATION JANUARY 31, WOODLEY SAID IT NOW APPEARS LIKELY IMF WILL INSTRUCT EVERS TO RETURN TO PHNOM PENH ONLY LONG ENOUGH TO PACK HIS BELONGINGS AND

ANNOUNCE HIS DEPARTURE. FUND DOES NOT PLAN TO REPLACE HIM FOR THE TIME BEING, BUT WOULD SEND SOMEONE (PROBABLY CHABRIER) FOR PERIODIC VISITS AND WOULD CONTINUE TO REVIEW THE DESIRABILITY OF REESTABLISHING A PERMANENT REPRESENTATIVE. WOODLEY REQUESTED THAT WE NOT REPEAT NOT DISCUSS THIS PROPOSED SOLUTION WITH CAMBODIANS, BUT LET EVERS ANNOUNCE HIS OWN DEPARTURE.

8. ALTHOUGH THIS KIND OF COMPROMISE PRESERVES FORMAL IMF ASSOCIATION AND WILL EFFECTIVELY ELIMINATE CONFLICTING ADVICE FROM EVERS AND OURSELVES, WE ARE CONCERNED (A) ABOUT POLITICAL EFFECTS OF EVERS DEPARTURE AND (B) POSSIBLE IMPACT ON JAPANESE AND OTHER DONORS. NEED SOONEST YOUR ASSESSMENT ON THESE POINTS SINCE, IF WE ARE TO TURN IMF AROUND WE WILL HAVE TO MOVE FAST. REQUEST YOU PROTECT FUND POSITION AS MENTIONED PARA. 7. KISSINGER

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